

DOCKET NO. 93-532-W/S - ORDER NO. 94-323 *VC*

Application of Pinebrook of Spartanburg)
for Approval of an Increase in Rates)
and Charges for Water and Sewer Service)
Provided to its Customers in its Service)
Area.)

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of Application filed by Pinebrook of Spartanburg (Pinebrook or the Company) on November 16, 1993, for an increase to its rates and charges for water and sewer service provided to its customers in Spartanburg County, South Carolina. This Application was filed pursuant to S.C. Code Ann. §58-5-240 (1976), as amended, and 26 S.C. Regs. 103-821 (1976), as amended.

By letter dated December 15, 1993, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in this matter. Additionally, the Company was instructed to directly notify all of its customers affected by the proposed increase. The Company

submitted affidavits indicating that it had complied with these instructions. A Petition to Intervene was received from the Consumer Advocate for the State of South Carolina. The Commission also received two (2) letters of Protest concerning the proposed increase.

On March 23, 1994, a public hearing concerning the matters asserted in the Company's Application was held in the Commission's Hearing Room at 111 Doctors Circle, Columbia, South Carolina. Pursuant to S.C. Code Ann. §58-3-95 (Supp. 1993), a panel of three (3) Commissioners, Commissioners Yonce, Mitchell, and Rowell, was designated to hear and rule on this matter. Commissioner Yonce presided. The Company was not represented by counsel; the Intervenor, the Consumer Advocate for the State of South Carolina, was represented by Carl F. McIntosh, Esquire; and the Commission Staff was represented by Florence P. Belser, Staff Counsel.

J. P. Hellams, Jr. testified on behalf of the Company. The Commission Staff presented the testimony of Sharon G. Scott, Accountant, and William O. Richardson, Utilities Engineer.

Upon full consideration of the Company's Application, the evidence presented at the hearing, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. Based on the test year, Pinebrook provides water and sewer service to an average of 75 residential customers in a mobile home park in Spartanburg County. It appears from the records that Pinebrook is operating under rates and charges approved by

Commission Order No. 84-115 issued on February 16, 1984 in Docket No. 83-330-W/S.

2. With regard to Pinebrook's present rates, the Company has a flat monthly fee for water and sewer of \$5.12 per customer per month for the first 4 Units, and an additional \$1.28 per unit for water and sewer usage over 4 Units. Each Unit is approximately 750 gallons or 100 cubic feet.

3. With regard to the proposed rates of Pinebrook, the Company proposes to increase its rates to \$12.00 Base Facility Charge for water plus a commodity charge of \$2.00 per Unit for water and a \$12.00 Base Facility Charge for sewer plus a commodity charge of \$2.00 per Unit for sewer. The proposed revenue increases equal a 524.07% increase for water service, a 544.09% increase for sewer service, and an overall increase of 533.92%.

4. Pinebrook asserts that its requested increase in rates and charges is necessary and justified because the Company's present rates do not generate enough income to properly maintain the system and to ensure adequate water and sewer service to its customers. According to the testimony of Mr. Hellams, Pinebrook of Spartanburg is a private water and sewer utility that serves a mobile home park which he owns. The utility presently serves 82 residential customers in the mobile home park. The utility purchases water from the Metropolitan Sub-District B Water Works, and Spartanburg Sanitary Sewer District disposes of and treats the sewerage from the utility. Pinebrook employs a bookkeeper/office manager and a meter reader. Mr. Hellams testified that he maintains the lines and the system and that he makes repairs. Mr. Hellams also stated

that he does not get a salary. According to Mr. Hellams, this is the first rate increase in ten years. Mr. Hellams also stated that the utility has been operating at a loss but that he has absorbed the loss. Pinebrook imposes no tap fees, set up fees, or customer deposits. Mr. Hellams also testified that he has received no service or billing complaints.

5. Using a test year consisting of the 12 months ending December 31, 1992, Staff verified the per book balances to the Company's books and records. The book figures reflected the Company's operating revenues, totaling \$5,448. Per Book total operating expenses amounted to \$11,280. This resulted in total income for return of (\$5,832) and produced an operating margin of (107.05%). Staff normalized the Company's operations by employing certain accounting adjustments. The net effect of the accounting adjustments decreased total income for return from (\$5,832) to (\$8,561) producing an operating margin of (157.14%). The Company has requested an increase in water and sewer rates which would produce gross additional annual revenues of \$29,088. Total income for return after the effect of the proposed increase amounts to \$17,004 and produces an operating margin of 49.24%. The requested rates, which produce \$29,088 in additional revenue constitute a 533.92% increase over the present rates.

6. Staff presented 13 accounting adjustments to the operating revenues, operation and maintenance expenses, administrative and general expenses, depreciation expense, taxes other than income, income taxes, and customer growth. First, Staff proposes to adjust operating expenses by \$720 to adjust for an increase in purchased

water. The Company proposed an adjustment of \$653. The Commission adopts Staff's adjustment as reasonable.

Second, the Company proposes to adjust operating expenses by \$468 for an increase in sewer rates. The Staff offered no adjustment, stating there was no justification for an increase in sewer rates. The Commission adopts the Staff position as reasonable.

Third, Staff proposes to adjust operating expenses to correct per book power expense. Staff recalculated power expense and found the amount booked was incorrect. Staff proposes to increase operation expenses by \$100 to correct this error. The Company offered no adjustment. The Commission adopts Staff's adjustment as reasonable.

Fourth, Staff proposes an adjustment to maintenance expenses to remove expenses associated with Plant Held for Future Use. Staff proposed removing \$400; the Company offered no adjustment. The Commission adopts the position of Staff.

Fifth, Staff proposes an adjustment to administrative and general expenses to annualize wages for the office manager and Meter Reader by (\$260). The Company proposed an adjustment of \$500. The Commission adopts the Staff adjustment as reasonable.

Sixth, Staff proposes an adjustment to administrative and general expenses to adjust for FICA taxes associated with the salary for the Office Manager. Staff proposes an adjustment of \$344. The Company offered no adjustment. The Commission adopts the adjustment proposed by Staff as reasonable.

Seventh, Staff proposes to amortize the rate case expenses

over a three-year period, thereby increasing administrative and general expenses by \$50. The Company offered no adjustment. The Commission adopts the Staff adjustment as reasonable.

Eighth, Staff proposes an adjustment to administrative and general expenses of \$1,384 for additional office, truck, and miscellaneous expenses not booked. The Company proposed no adjustment. The Commission adopts Staff's adjustment.

Ninth, Staff proposes an adjustment to depreciation expense of \$791 to allow for depreciation of the Company's truck. The Company offered no adjustment. The Commission adopts Staff's adjustment as reasonable.

Tenth, both Staff and the Company proposed an adjustment to revenues for the proposed increase. Staff proposes an adjustment of \$29,088, whereas, the Company proposes an adjustment of \$18,168. The Commission adopts the Staff adjustment as it appears the Company included only the proposed basic facility charge and neglected to include the commodity cost in the adjustment.

Eleventh, Staff proposes an adjustment of \$279 for taxes other than income to adjust for gross receipt taxes on the proposed increase. The Company proposes no adjustment. The Commission adopts Staff's adjustment as reasonable.

Twelfth, Staff proposes an adjustment of \$3,898 to income taxes to adjust the effect of the proposed increase. The Company proposes no adjustment. The Commission has examined this matter and believes that Staff's adjustment should be adopted.

Finally, Staff proposes an adjustment of \$654 to adjust for the effect of the increase on customer growth. The Company

proposes no adjustment. The Commission adopts Staff's adjustment as reasonable.

CONCLUSIONS OF LAW

1. Pinebrook is a water and sewer utility providing service in its service area within South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann., §58-5-10 et seq. (1976), as amended.

2. A fundamental principle of the ratemaking process is the establishment of a historical test year as a basis for calculating a utility's revenues and expenses, and consequently, the validity of the utility's requested rate increase. While the Commission considers the utility's proposed rate increase based upon occurrences within the test year, the Commission will consider adjustments for any known and measurable and out-of-test year charges and expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Southern Bell Telephone & Telegraph Company v. The Public Service Commission of South Carolina, 270 S.C. 490, 244 S.E.2d 278 (1978). In light of the fact that the Company proposes the 12-month period ending December 31, 1992, as the appropriate test year, and Staff has audited the Company's books for that test year, the Commission concludes that the 12-month period ending December 31, 1992, is the appropriate test year for the purposes of this rate case.

3. The Commission concludes that each of the adjustments proposed by the Commission Staff is appropriate and is hereby

adopted by the Commission.

4. The Commission concludes that after pro forma and accounting adjustments, the Company test year operating revenues, operating expenses, and net income for return for its system were \$5,448, \$14,009, and (\$8,561) respectively. These figures are reflected in Table A as follows:

TABLE A
NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$ 5,448
Operating Expenses	14,009
Net Operating Income	\$ (8,561)
Customer Growth	-0-
Total Income for Return	\$ <u>(8,561)</u>

5. Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility ... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public

duties." Bluefield, supra, at 692-693.

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility.

The Commission concludes that the use of the operating margin is appropriate in this case. Based on the Company's gross revenues, operating expenses, and customer growth for the test year, the Company's present operating margin for combined operations is as follows:

<u>TABLE B</u> <u>OPERATING MARGIN</u>	
BEFORE RATE INCREASE	
Operating Revenues	\$ 5,448
Operating Expenses	14,009
Net Operating Income	\$ (8,561)
Customer Growth	-0-
Total Income for Return	\$ <u>(8,561)</u>
Operating Margin	<u>(157.14%)</u>

7. The Commission is mindful of the standard delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon

this Commission to consider not only the revenue requirement of the Company but also the proposed price for the water and sewer treatment, the quality of the water and sewer service, and the effect of the proposed rates upon the customers. See, Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 303 S.C. 493, 401 S.E.2d 672 (1991); S.C. Code Ann., §58-5-290 (1976), as amended.

8. The fundamental criteria of a sound rate structure have been characterized as follows:

... (a) the revenue requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.
Bonbright, Principles of Public Utility Rates (1961), p. 292.

9. Based on the considerations enunciated in Bluefield and Seabrook Island, and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that Pinebrook should have the opportunity to earn an (3.81%) operating margin. In order to have a reasonable opportunity to earn an (3.81) operating margin, Pinebrook will need to produce \$13,570 in total operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$ 13,570
Operating Expenses	14,087
Net Operating Income	\$ <u>(517)</u>
Customer Growth	-0-
Total Income for Return	\$ <u>(517)</u>
Operating Margin	<u>(3.81%)</u>

10. The Commission has carefully reviewed the financial status of the Company and its requested increase in rates and charges. The Commission has also considered the interests of the Utility, as well as those of the customers of Pinebrook. The Commission has determined that the proposed increase is unreasonable and that a more appropriate increase would be accomplished with rates as shown in Appendix A attached to this Order and incorporated herein by reference.

11. Accordingly, it is ordered that the rates and charges stated on Appendix A are approved for service rendered on or after the date shown. The schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.

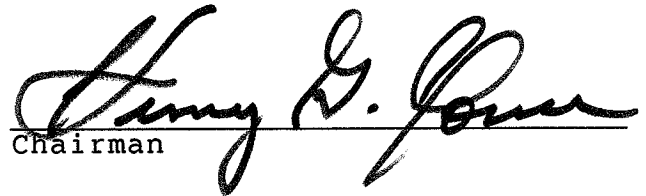
12. It is ordered that if the approved schedule is not placed in effect within three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission.

13. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for water and sewer utilities as

adopted by this Commission.

14. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)

APPENDIX A

PINEBROOK OF SPARTANBURG
100 DAYTONA DRIVE #1
SPARTANBURG, S. C. 29303
(803) 578-0823

FILED PURSUANT TO:

DOCKET NO. 93-532-W/S

ORDER NO. 94-323

EFFECTIVE DATE: APRIL 13, 1994

RESIDENTIAL SERVICE

(1 UNIT = 750 GALLONS = 100 CU. FT.)

MONTHLY WATER SERVICE

FIRST 4 UNITS (3,000 GALLONS).....\$6.00
ALL OVER 4 UNITS.....\$2.00 PER UNIT

MONTHLY SEWER SERVICE

FIRST 4 UNITS (3,000 GALLONS).....\$6.00
ALL OVER 4 UNITS.....\$2.00 PER UNIT